



U.S. Region Business Committee Meeting Minutes
Washington, D.C.
May 6-7, 1992

Attendees were Mr. Cochran, MBNA America; Mr. Craft, Wachovia Bank Card Services; Mr. Doody, First National Bank of Omaha; Ms. Friars, NationsBank Card Services; Mr. Gooden, FCC National Bank; Mr. Gosnell, USAA Credit Card Center; Ms. Hartung, Mellon Bank, N.A.; Mr. Hunt, Signet Bank; Mr. Marshall, Colonial National Bank; Mr. Mullady, First Omni Bank; Mr. O'Hare, Norwest Bank Iowa, I.A.; Mr. Sczuka, Wells Fargo Bank; Ms. Shaib, Chase Manhattan Bank; Mr. Srednicki, Citicorp Credit Services, Inc.; Mr. Tonnesen, Bank One Columbus, N.A.; Mr. Walsh, Chemical Banking Corp.

Attendees from MasterCard were: Mr. Almash, Mr. Brangaccio, Ms. Brademan, Mr. Brennan, Ms. Crow, Mr. Dimsey, Mr. Desrosier, Mr. Douglas, Mr. Fox, Mr. Frechette, Ms. Hancock, Mr. Hogan, Mr. Kranzley, Mr. Norton, Ms. Rush, Mr. Tempora, Mr. Wardell, Mr. Woods and Mr. Wright.

Attendees from Lintas were: Messrs. Crisci, Miller and O'Neil.

Also attending were Mr. Fischer of Morrison & Forester, Ms. Dubinsky of Marketing Insights, Mr. Litan of The Brookings Institute, Ms. Morgan and Mr. Anderson of Morgan and Anderson, and several representatives of Fleishman Hillard.

Welcome

The meeting began with a welcome for new members of the committee, Mr. Mullady and Mr. Tonnesen, as well as Ms. Graham who was unable to attend. It was announced that Mr. Cutrona had resigned from the committee.

The change in the name of the Committee from the Marketing Committee to the U.S. Business Committee was explained as reflective of the broader role of the Committee as demonstrated in the broader range of subjects in its agendas.

The minutes of the last meeting were reviewed and approved.

U.S. Region Update

Mr. Dimsey said he wished to address a number of comments from members of the Committee that had come to his attention relating to the membership of AT&T Universal in MasterCard and the recent election of Mr. Paul Kahn to the U.S. Region Board.

Mr. Dimsey stated that after MasterCard published its new membership and co-

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MC 86500

MasterCard International
888 Seventh Avenue
New York, NY 10106
212 649-4600



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branding rules in November 1990, AT&T Universal had agreed to move into compliance with them. This required that they buy a bank and issue AT&T Universal MasterCard cards from it and that the telephone system, accessed by their proprietary account numbers, should be opened to all MasterCard cards. Mr. Dimsey said that AT&T Universal had purchased an FDIC insured ILB, which was admitted to membership in MasterCard by a vote of the Board of Directors in November 1991. AT&T Long Lines division had also been fully cooperative in developing a "Zero-plus" dialing capability that would enable all MasterCard cardholders to use their MasterCard account number to make calls. Other telcos are also developing this capability, and Mr. Dimsey said that the only thing holding up this program was the need to provide a telco PIN security system that would not compromise ATM PINs. As a result of AT&T Universal's significant support of MasterCard and the progress made to move into compliance, Mr. Kahn had been proposed for membership on the U.S. Region Board by the Nominating Committee and unanimously approved by the U.S. Region Board at their last meeting on April 8, 1992. Mr. Norton advised that the method of election was within the U.S. Region's bylaws, which had incorporated sections from the MasterCard International bylaws, as well as the rules regarding corporate governance under Delaware Law.

Several members of the Committee voiced their dissatisfaction that the election of AT&T Universal was premature in that they had not yet moved their accounts from the Universal Bank to their own financial institution and that the telephone acceptance program that would provide universal acceptance to all MasterCard cardholders was not yet in place. They also expressed their dissatisfaction that the method of election of new directors by the U.S. Region Board, while within MasterCard's bylaws and the rules of corporate governance, did not provide those members, who opposed the slate proposed by the Nominating Committee, an opportunity to vote against it. A committee member presented a motion, which was seconded and passed with one abstention, that MasterCard inform the Committee as quickly as possible as to how a director, whose organization was not in compliance with MasterCard's universal acceptance rule, could be removed. Mr. Norton agreed to provide this information.

Mr. Dimsey thanked the Committee for their candid comments and advised that their views would be presented to the U.S. Region Board at their next meeting.

Performance Review

Mr. Almash reviewed the full year 1991 and first quarter 1992 statistics. He said that MasterCard held share in terms of gross dollar volume in 1991. In addition, he said that first quarter 1992 gross dollar volume increased to 10.6% reflecting the improvement in retail sales and the comparison to the low growth in the first quarter of 1991.

Agency Review

Ms. Morgan and Mr. Anderson reviewed the process underway regarding the advertising agency review. Ms. Morgan said that they had helped MasterCard narrow the original 60 applications to 6 semi-finalists. She said that their presentations will take place in the first week of June and will be reviewed by a committee that will include four members of the Business Committee (Messrs. Cochran, Gooden, Hunt and Srednicki). Mr. Dimsey thanked them for volunteering their time. Mr. Dimsey said that MasterCard expects to announce the final agency choice at the next meeting of the Committee on August 10. The winning presentation will be shown at the meeting. Some members requested to see the briefing document prepared by MasterCard for the six semi-finalists and it was agreed that it would be sent to all members of the Committee.

Advertising Research

Mr. Almash reviewed the copy test results of the Gold MasterCard "Sisters" and the Visa Gold "Only the Gold" commercials. He stated that "Sisters" succeeds in improving all MasterCard attributes, including a significant improvement in acceptance. He also said, that "Only the Gold" has a similar impact for Visa. The committee requested that staff provide a comparison of the "Sisters" commercial test results to previous tests of Gold MasterCard commercials. Mr. Almash agreed to send this to the members. Committee members also expressed concern that the "Sisters" test results showed a reduction of perceived Visa acceptance. Mr. Almash explained that this was inevitable in any test of a Mastercard commercial whether Visa was mentioned or not. Nevertheless, Mr. Dimsey said that the acceptance claim comparing Visa would only be used in the future if it could be demonstrated in research that it benefited MasterCard and did not negatively impact Visa.

New Advertising Creative

Mr. O'Neil, of Lintas, presented a storyboard for a TV commercial "Bicycle" within the Master The Moment campaign. It was suggested that minority casting be considered, which MasterCard staff supported. The concept met the approval of the majority of members, with a minority expressing concern that the purchases were not those associated with the revolving benefit of the card. In response to questions about the need to produce new Master The Moment creative before a major agency review, Mr. Dimsey said that commitments had been made to the members that the level of advertising spending and fresh creative would be maintained through the year.

Mr. O'Neil presented a new radio commercial designed to communicate MasterCard's cash advance location advantage and the fact that Discover's cash advance is not free, as perceived by many cardholders.

Positive Cardholder I.D.

Mr. Hogan reviewed the fraud problem in the U.S. Region and a proposed solution to identifying cardholders at the Point of Sale. Mr. Hogan stated that bankcard fraud reached an all time high in 1991 at .18% of outstandings and cost global bankcard issuers about \$1 billion. In addition, he stated that more than 90% of all fraud is authorized. Mr. Hogan proposed the use of PIN at the point of sale as the best solution to reduce fraud, although there would be a large implementation cost and would involve cooperation from Visa and perhaps others.

Photo Cards

Mr. Wardell said that as a result of technology improvements for reproducing personal photographs on cards that there was increased interest in putting cardholder pictures on the back of cards, even on the front of cards. He said that although MasterCard did not view this as a security device that should replace any current security features, photographs could be a valuable deterrent to not-professional fraud. He proposed guidelines that would standardize cardholder pictures on the front of cards so as to avoid widely divergent marketing use undermining their security value. The members said that they preferred MasterCard to monitor the development of photo cards and to work with members to use photographs responsibly within the current card design guidelines. (This would not allow any pictures on the front of Gold MasterCard cards and MasterCard BusinessCard cards.) Mr. Srednicki said that he would be measuring the fraud reduction impact of the Citibank photo card program and would be prepared to share his results with the Committee.

Maestro

Art Kranzley updated the Committee on the status of Maestro U.S.A. He stated that the objective of Maestro is to shift 3% from the \$250 billion cash and check market. He also stated that three regional networks, covering 40 states, are currently connected and that the CAP fee had been set at \$.0950 per transaction.

Thomas Cook Offices

Mr. Brangaccio discussed the Thomas Cook alliance and the role of the Cook travel offices within that alliance. Mr. Brangaccio stated that the key objectives of this alliance are to access travel and emergency services for MasterCard cardholders that will differentiate the MasterCard brand. He said that services such as:

ECR/ECA

Lost/Stolen Card Reporting

Emergency & Routine Travel Services

Emergency Communication Services

will be available to MasterCard Cardholders at Thomas Cook locations. In addition

the alliance allows for joint promotions such as the current MasterValues program.

POS Acceptance Practices

Mr. Brangaccio addressed questions on the preread document related to POS acceptance practices. He stated that MasterCard will move to gain approval of the Global Board in Stockholm and publish the rules during the latter part of July. The Committee supported the rules concepts recommended in the preread document.

Government Acceptance

Ms. Hancock reviewed the government acceptance initiative. She stated that one of the key issues in most government agencies is the ability of the agencies to surcharge. MasterCard plans to focus on pilot programs with various government agencies with the objective of demonstrating the business case from a cash flow perspective. In this way it is believed that the agencies will agree to treat the transactions as customary retail transactions.

Follow Up Items

Mr. Dimsey agreed to send summaries of the Quality Ad Hoc Update and the Product I.D. agenda items to the committee. In addition, he agreed to include review of interchange at the next meeting.

Litan Study

Mr. Litan of the Brookings Institute discussed his study on "The Impact of Price Controls on the Credit Card Industry." He stated that based on standard measures of competitiveness, the credit card industry is extremely competitive. He also indicated that an attempt to cap interest rates would likely result in reduced credit for marginal customers.

Legislative Update

Ms. Brademan of staff and Mr. Fischer of Morrison & Forester discussed the key legislative issues. This review included the Shumer Act on change in terms disclosure, the GAO study on industry competitiveness, and Bankruptcy and Telemarketing bills currently in development.

Public Affairs Communications Program

Mr. Woods reviewed the communication program that has been implemented by MasterCard. He stated that key activities included.

- Public Affairs Bulletin on Emerging Issues
- Research Sponsorships - Litan
- Resource Materials - Fact Book
 - Credit Card Facts Video

Mr. Woods also agreed to follow-up on the coordination of PAC activities and extending the Litan study to include evaluating the impact on the Retail industry.

Adjournment

There being no further matters to come before the meeting, upon motion duly made and seconded, the meeting was adjourned.


Michael A. Tempora
Secretary
U.S. Business Committee